

Alternatives to Bankruptcy

Before you, or someone you know, decide to file for bankruptcy, be sure to understand the repercussions. Bankruptcy will be listed on your credit report for up to ten years, your name may appear in the local paper, and the bankruptcy itself, plus the attorney fees, may add significantly to your debt. Bankruptcy seeks to benefit both debtors and creditors by arranging that debtors get relief from debts they cannot pay while creditors get paid from whatever assets the debtor does not absolutely need to live.



Bankruptcy primarily discharges personal loans, credit card and business debt. It does not get rid of secured debt such as mortgages and car loans or obligations such as alimony, child support and student loans. Before engaging a bankruptcy attorney, the following alternatives are worth considering:

- **Stick with the status quo:** Surprisingly, the best approach for those who have little income and property, and few prospects to change their lifestyle, may be to do nothing. They will likely be considered “judgment proof,” since they don’t own anything which can legally be taken by creditors. Creditors cannot take such essentials as basic clothing and household furnishings, food, or income from Social Security, unemployment or public assistance. Creditors will likely write off the debt and consider it a deductible business loss for income tax purposes. Eventually the debt becomes legally uncollectible, and in seven years may come off your credit record.
- **Negotiate with your Creditors:** Create a realistic budget. Analyze your willingness to reduce your expenditures, increase your income, and sell some of your assets. If your analysis shows you can pay off your debts within three years, plan to use this fact as leverage when you negotiate. Your creditors may agree to reduce your payments and might even settle your debts for less than you owe.
- **Seek help from Consumer Credit Counseling Services:** Contact the National Foundation for Credit Counseling or Consumer Credit Counseling Service, both non-profit providers of credit counseling. They may be able to help you consolidate your monthly payments and obtain payment or interest reductions on your unsecured debts. Be sure to investigate the organization thoroughly and ask what impact using them will have on your credit rating. The effect may be significant but is generally less so than filing for bankruptcy.

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